

Message Text

PAGE 01 STATE 210143

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TAGSEG, IS, PINR

SUBJECT: INTSUM 136 - AUGUST 24, 1976

WARNING NOTICE SENSITIVE SOURCES AND METHODS INVOLVED
NOT RELEASABLE TO FOREIGN NATIONALS--NOT RELEASABLE TO
CONTRACTORS OR CONTRACTOR/CONSULTANTS

1. LEBANON. VIOLENT ARTILLERY CLASHES FLARED ONCE AGAIN
THROUGHOUT BEIRUT ON AUGUST 23. AP REPORTED THAT AN
ESTIMATED 200 HAD BEEN KILLED AND 350 WOUNDED--THE
HIGHEST 24-HOUR CASUALTY TOLL SINCE THE FALL OF TEL ZAATAR.
ELSEWHERE IN LEBANON, MILITARY ACTION WAS CONFINED
PRINCIPALLY TO ARTILLERY DUELS AND INTERMITTENT GROUND
SKIRMISHES, WHILE THE PALESTINIANS CLAIMED THAT THE
SYRIANS/CHRISTIANS WERE PREPARING A MAJOR ASSAULT ON
TRIPOLI IN THE NORTH.

2. THE LONG-THREATENED CHRISTIAN OFFENSIVE AGAINST
PALESTINIAN-LEFTIST STRONGPOINTS IN THE MOUNTAINS JUST
EAST OF BEIRUT HAS STILL NOT MATERIALIZED. THE CHRISTIANS
ARE NOW HINTING THAT SYRIA MAY UNDERTAKE A MAJOR
OFFENSIVE IN EARLY SEPTEMBER, BEFORE PRESIDENT-ELECT
SARKIS IS TO ASSUME OFFICE, IF NEGOTIATIONS REMAIN STALLED.

SECRET

PAGE 02 STATE 210143

3. THIS APPEARS TO BE ANOTHER ATTEMPT TO ENCOURAGE THE
PALESTINIANS TO WITHDRAW FROM THE MOUNTAINS WITHOUT A
FIGHT. ASAD, HOWEVER, RECENTLY RECEIVED THE APPROVAL OF
HIS SENIOR MILITARY ADVISERS FOR A RENEWED OFFENSIVE

SHOULD IT BE NECESSARY.

4. BOTH THE CHRISTIANS AND THE LEFTIST HAVE EMPHASIZED IN RECENT STATEMENTS THAT A RETURN TO ALL-OUT MILITARY ACTION MAY BE THE ONLY MEANS OF RESOLVING THE LEBANESE CIVIL WAR. REITERATING PAST STATEMENTS, JUMBLATT TOLD A PRESS CONFERENCE ON AUGUST 23 THAT THE LEFTISTS HAVE "NO ALTERNATIVE" OTHER THAN A CONTINUATION OF THE FIGHTING. THE PHALANGE POLITBURO REPORTEDLY CONCLUDED THAT THE LEFTISTS/PALESTINIANS WERE NOT DISPOSED TO "TAKE STEPS TO ENSURE PEACE," FORCING THE CHRISTIANS TO OPT AS WELL FOR FURTHER MILITARY MOVES.

5. IN A STATEMENT ISSUED AUGUST 23, SYRIAN FOREIGN MINISTER KHADDAM ANNOUNCED THAT THE SYRIANS HAD AGREED TO ATTEND AN ARAB SUMMIT CONFERENCE ON LEBANON. HOWEVER, KHADDAM ADDED THAT THE ARAB LEAGUE SHOULD CONTACT OTHER ARAB STATES WITH REGARD TO FINDING A "SUITABLE" VENUE. THE SYRIANS AND LEBANESE CHRISTIANS HAVE ALREADY LET IT BE KNOWN THAT THEY WANT THE SUMMIT TO BE HELD SOMEWHERE OTHER THAN CAIRO, PREFERABLY IN SAUDI ARABIA. THE SYRIANS ARE ALSO LIKELY TO PRESS, AT LEAST INITIALLY, FOR A DISCUSSION OF THE SINAI II ACCORD, WHICH DAMASCUS CONTENTS CAUSED THE LEBANESE CIVIL WAR.

6. ACCORDING TO EMBASSY KUWAIT, THE KUWAITIS HAVE INDICATED THAT "ABOUT 10" ARAB LEAGUE STATES HAVE NOW ACCEPTED THE PROPOSAL FOR A SUMMIT, ONE SHORT OF THE NECESSARY MAJORITY OF ELEVEN MEMBERS. LEBANESE PRIME MINISTER KARAMI WILL REPORTEDLY PARTICIPATE IN THE SUMMIT, PROVIDED THE LEBANESE DELEGATION IS HEADED BY PRESIDENT-ELECT SARKIS.

7. EMBASSY BEIRUT COMMENTED THAT LEBANESE PRESS COVERAGE OF THE US DIPLOMATIC MISSION, COMPOSED OF FSOS ROBERT HOUGHTON AND DAVID MACK, TO THE CHRISTIAN-SECRET

PAGE 03 STATE 210143

HELD SECTOR HAS BEEN GENERALLY OBJECTIVE TO DATE. SOME MODERATE LEBANESE POLITICIANS HAVE EXPRESSED THEIR RESERVATIONS, HOWEVER, THAT THE MISSION MIGHT ENHANCE CHRISTIAN INTERESTS OR THE IDEA OF PARTITION.

8. MOBIL OIL OF LEBANON HAS DECIDED TO CLOSE DOWN ITS OPERATIONS IN LEBANON ON A PERMANENT BASIS. ALL MOBIL INSTALLATIONS THERE WILL CLOSE AS OF AUGUST 31 AND EMPLOYEES WILL BE TERMINATED. MOBIL MANAGEMENT HAS DEBATED CLOSURE FOR SOME TIME. IT HAS FINALLY CONCLUDED THAT ITS OPERATIONS SHOULD TERMINATE BECAUSE (A) OF DE FACTO PARTITION THAT CURRENTLY OBTAINS, (B) FOR SIXTEEN MONTHS NOW MOBIL'S PETROLEUM STOCKS HAVE BEEN TAKEN AND NOT PAID FOR,(C) CONSIDERABLE DAMAGE

THAT HAS BEEN DONE TO SIDON REFINERY IN WHICH MOBIL HAS 50 PERCENT INTEREST AND (D) LOSSES OCCASIONED BY SEQUESTRATION OF MOBIL PROPERTIES AND EQUIPMENT BY WARRING FACTIONS.

MOBIL'S AREA-WIDE OPERATIONS

PREVIOUSLY HANDLED FROM LEBANON WILL AS OF SEPTEMBER 1 BE HANDLED OUT OF CAIRO. IT IS UNDERSTOOD THAT EXXON IS CONTEMPLATING SIMILAR CLOSURE AND THAT OTHER PETROLEUM FIRMS STILL IN LEBANON MAY ALSO SHUT DOWN OPERATIONS. (SECRET/NOFORN/NOCONTRACT)

9. EGYPT HIJACKING. THE HIJACKING OF AN EGYPTIAN COMMERCIAL FLIGHT FROM CAIRO TO LUXOR ENDED AT 1730 LOCAL TIME AUGUST 23 WHEN EGYPTIAN SECURITY FORCES STORMED THE AIRCRAFT, CAPTURING THE HIJACKERS AND RELEASING UNHURT ALL 98 PASSENGERS, INCLUDING AT LEAST ONE AMERICAN.

10. EGYPTIAN PRIME MINISTER SALIM ANNOUNCED THAT THE HIJACKERS CONFESSED THAT THE OPERATION WAS FINANCED BY QADHAFI AND THAT THEY WERE PROMISED 100,000 EGYPTIAN POUNDS IF THEY TOOK THE PLANE TO TRIPOLI. INFORMATION REGARDING THE IDENTITY AND NUMBER OF THE HIJACKERS IS STILL FRAGMENTARY, HOWEVER. FIRST REPORTS SPOKE OF SEVEN, INCLUDING FIVE LIBYANS, ONE ALGERIAN, AND ONE PALESTINIAN. AFTER THEIR APPREHENSION, HOWEVER, SECRET

PAGE 04 STATE 210143

THE DIRECTOR OF CAIRO SECURITY TOLD THE EMBASSY THERE WERE ONLY THREE. THE LEADER OF THE HIJACKERS DESCRIBED HIMSELF TO EGYPTIAN AUTHORITIES AS A LIBYAN AND SAID HIS GROUP WAS KNOWN AS THE ABDAL NASIR ORGANIZATION, COMPROMISING LIBYANS, ALGERIANS, AND PALESTINIANS.

11. THE HIJACKERS REPORTEDLY DEMANDED THE RELEASE OF THREE LIBYANS ARRESTED IN CONNECTION WITH THE ATTEMPTED ASSASSINATION IN EGYPT OF FORMER LIBYAN POLITICAL LEADER MUHAYSHI, AND THE YEMENI AND THE PALESTINIAN ARRESTED IN CONNECTION WITH AN ATTEMPT

ON THE LIFE OF FORMER SOUTH YEMEN PRIME MINISTER HAYTHAM.

12. WHATEVER THE ACTUAL EXTENT OF LIBYAN INVOLVEMENT, THE EGYPTIAN CHARGE OF QADHAFI'S COMPLICITY PROMISES THAT THE PROPAGANDA BATTLE BETWEEN THE TWO COUNTRIES CAN BE EXPECTED TO REACH NEW HEIGHTS OF VIRULENCE. BEYOND THAT, THE OPERATION COULD PROVIDE THE PRETEXT THAT SADAT NEEDS TO INITIATE MILITARY OPERATIONS AGAINST LIBYA. (SECRET)

13. EGYPT FINANCES. RECENT REPORTING FROM EMBASSY CAIRO INDICATES THE EGYPTIAN GOVERNMENT FINALLY IS FACING TO THE CRISIS IN ITS EXTERNAL FINANCES. WITH A LOOMING GAP IN THE BALANCE OF PAYMENTS OF OVER \$1 BILLION, AND WITH NEW FINANCING DIFFICULT TO OBTAIN, THE HIGHER PLANNING COMMITTEE IS CONSIDERING A NUMBER OF "DRASTIC MEASURES" TO HELP NARROW THE GAP. THEY INCLUDE:

--REDUCING IMPORTS IN 1976 BY \$360 MILLION;

--TAKING FURTHER POLITICALLY PAINFUL REFORMS (IN ADDITION TO THOSE TAKEN THIS SPRING) IN ORDER TO QUALIFY FOR IMF STAND-BY FUNDING (I.E., CHANGING THE EXCHANGE RATE STRUCTURE, REDUCING SUBSIDIES);

--ATTEMPTING TO REFINANCE, WITH ARAB GUARANTEES, \$250 MILLION IN COMMERCIAL CREDITS;

SECRET

PAGE 05 STATE 210143

--UTILIZING THE FOREIGN EXCHANGE COVER HELD BY FOREIGN COMMERCIAL BANKS.

14. EGYPT'S ONLY CURRENT PROSPECT FOR SECURING LARGE AMOUNTS OF ADDITIONAL FINANCIAL ASSISTANCE IS THE NEW ARAB FUND--THE GULF ORGANIZATION FOR DEVELOPMENT IN EGYPT (GODE). THIS FUND IS EXPECTED TO PROVIDE \$400-500 MILLION ANNUALLY OVER THE NEXT FIVE YEARS TOWARD THE FINANCING OF DEVELOPMENT PROJECTS.

15. EGYPT AND THE DONOR STATES (SAUDI ARABIA, KUWAIT, QATAR, AND THE UAE) HAVE CONTINUED TO DISAGREE ON DETAILS RELATED TO THE DISBURSEMENT OF FUNDS. THE EGYPTIANS ARE NOT INTERESTED IN PROJECT FINANCING AND WANT GODE FUNDS TO BE USED FOR FAST-DISBURSING BALANCE-OF-PAYMENTS SUPPORT. THERE IS SOME INDICATION THAT THE CONTRIBUTORS TO GODE MIGHT ALLOW THE FUND TO BE USED TO SECURE GUARANTEES FOR BALANCE-OF-PAYMENTS ASSISTANCE FROM OTHER SOURCES.

16. WITHOUT SUBSTANTIAL AMOUNTS OF FINANCIAL ASSISTANCE BY THE END OF SEPTEMBER EGYPT MAY HAVE TO DEFAULT ON SOME OF ITS SUPPLIERS CREDITS AND COMMERCIAL BANK OBLIGATIONS. IN 1976, EGYPT MUST PAY LE 840 MILLION (\$2.1 BILLION AT THE OFFICIAL RATE) IN NON-MILITARY FOREIGN DEBT. ABOUT ONE-HALF OF THIS IS SHORT-TERM COMMERCIAL DEBT; ABOUT ONE-THIRD IS FOR MATURING OFFICIAL DEPOSITS; AND ABOUT ONE-EIGHTH FOR SUPPLIERS CREDITS. AVAILABLE INFORMATION SUGGESTS THAT ONLY A SMALL PORTION OF THE DEBT HAS BEEN PAID.

17. SHOULD EGYPT BE UNABLE TO MEET ALL OF ITS CURRENT

DEBT REPAYMENT OBLIGATIONS, OR REFINANCE THEM, IT MIGHT ANNOUNCE A DELAY IN REPAYMENT OF ITS OFFICIAL DEPOSITS, MOST OF WHICH ARE HELD BY SAUDI ARABIA AND THE GULF STATES. EGYPT WOULD OF COURSE TRY TO AVOID RENOUNCING PAYMENT ON ANY OF THE COMMERCIAL CREDITS AS ACCESS TO THIS TYPE OF FINANCING WILL CONTINUE TO BE NECESSARY IN THE FUTURE.

SECRET

PAGE 06 STATE 210143

18. IF THE EGYPTIAN GOVERNMENT DECIDES TO IMPLEMENT ANY OF THE "DRASTIC MEASURES" BEING CONSIDERED, ADOPTING THE IMF-DESIGNATED REFORMS WOULD BE THE MOST EFFECTIVE. THIS WOULD HELP RESTORE INTERNATIONAL CONFIDENCE IN THE GOVERNMENT'S ABILITY TO ADMINISTER THE ECONOMIC REFORMS THAT ARE NECESSARY TO PUT THE ECONOMY ON A SOUNDER FOOTING. IN THE LONG RUN IMPLEMENTATION OF THE REFORM PACKAGE SHOULD HELP REDUCE EGYPTIAN DEPENDENCE ON THE FOREIGN DOLE. IN THE SHORT RUN, IT SHOULD HELP EGYPT TO OBTAIN THE BILATERAL AND MULTILATERAL COMMITMENTS THAT IT NEEDS IN ORDER TO AVERT FINANCIAL COLLAPSE. (SECRET)

19. ISRAEL. THE ANTI-VAT STRIKE IN NABLUS ENDED AUGUST 21 AFTER LASTING 20 DAYS. NORMAL COMMERCIAL ACTIVITY ALSO RESUMED IN TULKARM AND QALQILYA WHERE THE STRIKE HAD BEEN ON AND OFF. THE STRIKE'S END CAME AFTER A STATEMENT BY CIVIC LEADERS OF NABLUS, BETHLEHEM AND QALQILYA CALLING FOR "SUSPENSION" OF THE STRIKE, BUT CONTINUED NON-COMPLIANCE WITH PROVISIONS OF THE VAT. SPECIFICALLY, THE STATEMENT CALLS UPON WEST BANK MERCHANTS TO REFUSE TO COLLECT THE TAX OR KEEP BOOKS REQUIRED IN CONNECTION WITH THE TAX.

20. THEIR DEFIANT STATEMENT SAVES THE WEST BANKERS SOME FACE AS THEY END THEIR STRIKE WITHOUT WINNING THE POINT OF PRINCIPLE, I.E. THAT VAT IS AN ILLEGAL TAX IMPOSED BY OCCUPIERS ON OCCUPIED. TO THE EXTENT THEY MUST IMPORT GOODS FROM AND THROUGH ISRAEL, THEY WILL

INDEED PAY THE VAT IMPOSED THERE, WHETHER THE ISRAELIS CAN OR WILL TRY TO COLLECT 8 PERCENT ON "VALUE ADDED" BY THE WEST BANKERS IS ANOTHER QUESTION.

21. THERE HAVE BEEN INDICATIONS ISRAEL MAY LET SLEEPING DOG LIE. IT IS NOTEWORTHY THAT THE FINAL "FACE-SAVING" CALL FOR THE STRIKE'S END CAME FROM BETHLEHEM AS WELL AS NABLUS. EXCEPT FOR A ONE-DAY EFFORT ON AUGUST 16 THE STRIKE HAD LONG BEEN OVER THERE. THE JOINT STATEMENT, HOWEVER, WAS PROBABLY INTENDED TO CLOSE THE RIFT WHICH HAS APPEARED BETWEEN THE NORTH AND
SECRET

PAGE 07 STATE 210143

THE SOUTH OVER ANTI-VAT STRATEGY AND TACTICS. ALSO OF
NOTE IS THAT NABLUS' CALL REPORTEDLY CAME AFTER A MEETING
OF BUSINESS LEADERS, CITY COUNCILMEN, PROFESSIONALS,
LABOR LEADERS AND YOUTHS, WHICH SUGGESTS THE BREADTH
OF INVOLVEMENT BY THE POPULACE THERE AND THE IMPORTANT
ROLE OF THE LATTER TWO GROUPS, IN PARTICULAR, IN
CONTINUING THE STRIKE. (LIMITED OFFICIAL USE) KISSINGER

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